
Testimony
By Kenneth L. Sperling
Global Health Management Leader

of Hewitt Associates LLC

On behalf of the National Coalition On Benefits

Before

U.S. House of Representatives

Committee on Ways and Means
Hearing on

Health Reform in the 21st Century: Insurance Market Reform

April 22, 2009

Hewitt Offices—U.S.

March 2009

California

Newport Beach
San Francisco

Connecticut

Norwalk

District of Columbia

Washington

Florida

Orlando
Miami

Georgia

Atlanta

Illinois

Lincolnshire
Chicago

Maryland

Hunt Valley

Massachusetts

Waltham

Michigan

Troy

Minnesota

Minneapolis

Missouri

St. Louis

New Jersey

Bridgewater

New York

New York

North Carolina

Charlotte

Ohio

Independence

Pennsylvania

Philadelphia
Pittsburgh, PA

Texas

Irving
The Woodlands

Virginia

Falls Church, VA

About Hewitt Associates

Hewitt Associates (NYSE: HEW) provides leading organizations around the world with expert human resources consulting and outsourcing solutions to help them anticipate and solve their most complex benefits, talent, and related financial challenges. Hewitt consults with companies to design and implement a wide range of human resources, retirement, investment management, health management, compensation, and talent management strategies. As a leading outsourcing provider, Hewitt administers health care, retirement, payroll, and other HR programs to millions of employees, their families, and retirees. With a history of exceptional client service since 1940, Hewitt has offices in 33 countries and employs approximately 23,000 associates who are helping make the world a better place to work. For more information, please visit www.hewitt.com.

Hewitt Statement

I. Introduction

Mr. Chairman and Members of the Subcommittee: Thank you for the opportunity to testify at this important hearing on the future of America's employer-based health care system. My name is Ken Sperling, and I am Hewitt Associates' Global Health Management Leader. I have been asked to testify on behalf of the National Coalition on Benefits ("NCB") to discuss the importance of preserving ERISA in providing employer-sponsored benefits.

I am here today on behalf of a Coalition of 180 business trade associations and employers who have joined together to work with Congress to maintain uniform health and retirement benefits to employees and retirees across states and localities. The National Coalition on Benefits along with over 190 companies and associations recently wrote to President Obama applauding his commitment to comprehensive, bipartisan health care reform to all Americans and access to affordable health care coverage.¹ I have included that letter in my written testimony. The Coalition calls on Congress to enact reform that includes, as its foundation, controlling costs and preserving ERISA. Nationwide, employer-sponsored health care plans provide health care coverage to over 177 million participants – approximately 55% of employees are covered under self-insured plans, while 45% of employees receive coverage under fully insured products. Data from the Kaiser Family Foundation shows that 99% of employers with 200 or more employees offered health benefits in 2008, the latest data available.² Today, I will also discuss our experiences in working with employers to offer health insurance coverage to their workers.

Hewitt Associates is a global human resources outsourcing and consulting company, providing services to major employers in more than 30 countries and employing 23,000 associates worldwide. Headquartered in Lincolnshire, Illinois, we serve more than 2,000 U.S. employers from offices in 30 states, including many of the states represented by the members of this distinguished Committee.

As one of the world's premier human resources services companies, Hewitt Associates consults with large employers to design their health plans and evaluate bids by competing health providers. In addition, we are the leading provider in Benefits Outsourcing services, administering health and welfare plans for 195 clients representing more than 7.5 million participants. Our access to large employers led us to create the Hewitt Health Value Initiative™ database, which contains detailed information on more than 1,800 health plans throughout the U.S., including 350 major employers and more than 13 million health plan participants. This rich data source allows us to analyze the impact of rapidly rising health care costs on employers, employees, dependents, and retirees.

II. View of the Challenges

Mr. Chairman, Rep. Camp and members of the Committee, we thank you for your leadership in preserving the employer-based system. We appreciate your acknowledgment that many Americans want and should be able to keep the coverage that they have today. We agree, Mr. Chairman, with the view that the employer-based health care system must be preserved and strengthened as part of any viable health reform plan. The National Coalition on Benefits supports the need for health reform and the objective of providing universal coverage – with the confidence that reform will not disrupt their existing coverage. Many NCB members support the goal of universal coverage. Hewitt has found that large employers support universal coverage -- there is not yet consensus on the best way to achieve it.

¹ Letter to President Obama, April 1, 2009, attached to testimony.

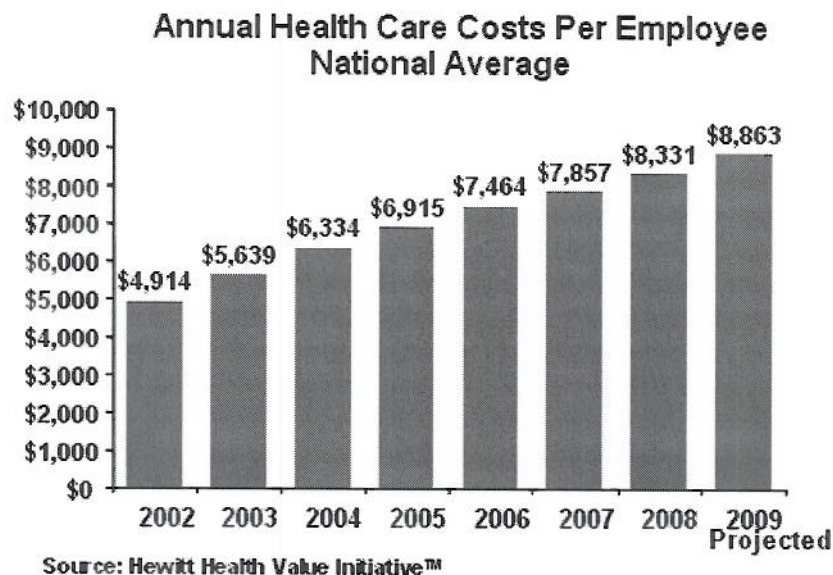
² Kaiser/HRET Survey of Employer-Sponsored Health Benefits 2008.

Today's testimony will focus on the importance of ERISA preemption in preserving uniform and comprehensive employer-sponsored coverage and discuss some of issues we encourage you to evaluate as you consider rules governing the health insurance marketplace. A reformed health care system should address the cost shifting that current exists to employer-sponsored plans through an increasing burden of uncompensated care and the inadequacy of public reimbursement, but this reformed system should preserve the ability to provide equal benefits to all employees using ERISA as its foundation.

The employer-sponsored model works well because it allows the pooling of risks and because group purchasing lowers health care costs, enabling those who are less healthy to secure affordable coverage for themselves and their families. Employer-based plans typically waive pre-existing conditions and cannot increase premiums or limit coverage based on individual health status. HIPAA regulations ensure that people can move from job to job without concern for being denied coverage due to health status. More importantly, employers have a vested interest in the health and productivity of their workforce, and the employer-based system has consistently produced innovative health care solutions that improve productivity, reduce absence from work, and lower disability costs.

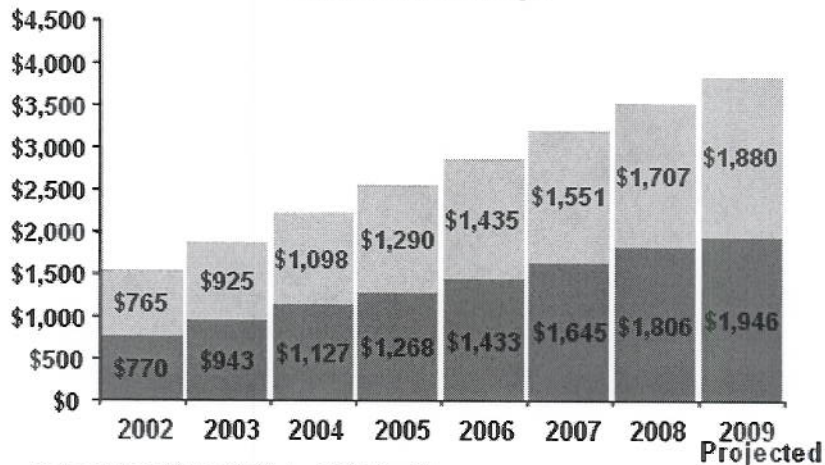
As good as it is, this system is increasingly at great risk, given the combination of cumulative increases in health care costs and the current severe economic downturn. Despite the positive actions of many employers, there are many problems to solve in the current U.S. health care system. Among the most pressing:

- **Health care is too costly.** The National Coalition on Benefits believes that controlling spiraling health care costs benefits every American seeking access to quality, affordable care and makes it possible for employers to continue their role as voluntary sponsors of health plans for their employees. Employers want health care reform. According to Hewitt data, annual large-employer health care costs (i.e., total costs for all health plan participants divided by the number of employees) have more than doubled since 2001 and are projected to reach \$8,863 in 2009. Over the same period, annual employee contributions and out-of-pocket costs are expected to increase by 190% to \$3,826.³



³ Estimates calculated from the Hewitt Health Value Initiative (HHVI) database.

Employee Contributions and Out-of-Pocket National Average



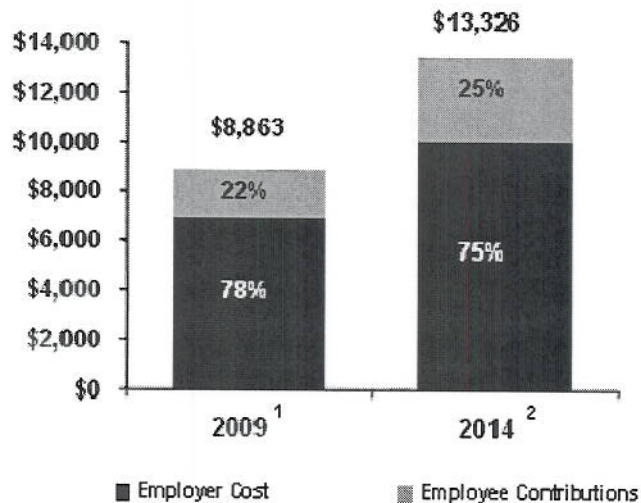
Source: Hewitt Health Value Initiative™

- Average Employee Contribution
- Average Employee Out-of-Pocket Costs

- **State mandates increase the overall cost of health care coverage.** Some sources calculate there are nearly 2,000 separate mandated benefits and provider regulations across the 50 states. Estimates of how much this patchwork quilt of benefit requirements increases cost to the overall health care system vary, but a 2006 report by the Massachusetts Division of Health Care Finance and Policy estimated the cost of state mandates to be approximately 12% of premium, and the State of Maryland found that the total cost of its benefit mandates were about 14% of premium. Large employers' reliance on ERISA preemption to provide a uniform set of benefits to all employees is not only inherently fair, but also keeps costs down for both employer and employees who share in the total cost of coverage.
- **Changes to the payment system are needed.** Systemic changes must be made in our health care delivery system if we hope to mitigate or reverse the current cost acceleration. For example, our health care system rewards physicians when they provide more services for sick care, rather than rewarding them equally for spending time to help patients avoid the 80% of illnesses that are lifestyle-related. Employers and health plans must work together to radically change the payment system to reimburse physicians and hospitals for excellent primary care supplemented with appropriate specialty care and chronic care management. Without meaningful change soon, large employers fear that rising costs will make health care unaffordable for millions more Americans. According to Hewitt data, on their current trajectory, average annual health care costs per employee will rise from \$8,863 per person in 2009 to \$13,326 per employee by 2014.⁴ Employers will have difficulty subsidizing the additional cost, and employees will increasingly be unable to afford the increasing contributions.

⁴ Estimates calculated from the Hewitt Health Value Initiative (HHVI) database.

Projected Annual Health Care Costs Per Employee



1. Data Source: Hewitt Health Value Initiative™ database

2. Cost projection based on a +8.5 annual health care trend and a deterioration in employer-provided subsidy of 3.0%

III. Expanding Coverage Through Market Reform Needs to Address Cost Shifts

The cost of health care for large employers and their employees is high partly due to differences in reimbursement rates between public and private health care programs. Under the current system, the cost of health care for employers offering good health coverage to their employees is higher than it “should be” due to a combination of the following factors:

- **Private payers are charged somewhat higher fees to offset a portion of the costs for uncompensated care.**

Economists who have studied the costs shifted to private plans by providers seeking to offset uncompensated-care costs have estimated different ranges. A recent Congressional Budget Office report put the cost of uncompensated care at 5% of hospital costs and 1% of physician costs.⁵ We believe it is reasonably conservative to assume that the additional cost incurred by private plans to offset provider costs for uncompensated care is about 2% to 3% of an employer’s health care costs. Based on the current data, economists do not agree, with some projecting higher ranges and some projecting lower ranges.⁶

- **Providers shift costs to employer-sponsored plans to make up for reimbursements from public programs that are lower than the total costs of providing care.**

Employers also see higher price tags in their medical plans because Medicare and Medicaid payment rates are set by law and are comparatively lower than rates for employer-sponsored group health plans. It is no secret that providers receive much higher payments from private insurance plans than from public plans. Economists vary in their views about how much of the difference between employer-sponsored and public payments truly represents “cost shifting” from public to private plans. But the fact remains that Medicare and Medicaid reimburse providers at much lower levels than commercial payers. For example,

⁵ Congressional Budget Office, Key Issues in Analyzing Major Health Insurance Proposals report, December 2008.

⁶ For different views on the degree to which uncompensated care increases the cost for private payers, see, for example, The Kaiser Family Foundation analysis at <http://www.kff.org/uninsured/upload/7809.pdf> and the Families USA report at <http://www.familiesusa.org/resources/publications/reports/paying-a-premium.html>.

according to a 2008 Milliman actuarial study,⁷ Medicare reimburses hospitals at an average of 70% of private plan reimbursements and pays physicians 78% of what they receive from private plans. Medicaid reimburses hospitals at an average of 67% of private plan rates and pays physicians at an average of 53% of private plan rates.

It is desirable, but perhaps not fiscally feasible, to close this gap in public/private reimbursement rates to providers. At a minimum, health reform should ensure that the payment differential does not worsen further, because this would create even more cost-shifting pressure on private payers and potentially lead to a two-tier system where employers offering their own plans are at a significant cost disadvantage.

IV. Core Efforts For Health Care Reform

Comprehensive health care reform must start by first addressing the very real issues that drive up cost, preventing more employers from participating and more individuals from taking advantage of the public and private health care programs available to them.

Federal health care reform must focus on the following priorities:

1. **Preserve and promote the employer-based health care system.** Reform should seek to both protect and expand the number of employers who provide health care for their employees. Over the years, the system has encouraged employers to be innovators of health care solutions. Recent innovations include extensive health coaching programs, value-based design, cost and quality transparency, and consumer-oriented incentives. There are promising outcomes emerging from extensive wellness and disease management programs that encourage participants to engage in healthy activities, identify their health risks, and manage their illnesses. By investing in the health of their workforce, employers help improve the quality of life for employees and their families, while also gaining better control over health care costs and employee absences. The employer-based system has also preserved broad access to primary care, specialists, and hospitals, as well as on-site services and pharmacies. Employees also understand the importance of employer-sponsored health coverage and the employer's role in financing a substantial portion of the cost. The National Business Group on Health's 2007 survey indicated three out of every four respondents valued their health insurance as their most important benefit from their employer, and an equal number said they would prefer to have their employer provide this benefit rather than being provided a salary increase to purchase health coverage on their own.
2. **Preserve and strengthen federal ERISA pre-emption of state laws to promote uniformity in coverage and reduce administrative costs.** The vast majority of large employers operate across multiple states and they must be able to continue to offer uniform benefit packages to their employees. Allowing states to require these employers to comply with varying state and/or local government mandates would raise employer costs even further and result in unequal benefits for their employees. This would create an unnecessarily costly and complex administrative burden with conflicting reporting, withholding, and disclosure requirements from jurisdiction to jurisdiction. At worst, weakening ERISA would provide incentives to employers to do business only in those states that had less burdensome health care mandates. ERISA pre-emption also gives each employer the flexibility to design coverage that meets the changing needs and disease burden of their unique workforce, which is critical for employers to provide programs that will optimize employee health and productivity and compete in a global marketplace.
3. **Reform the insurance marketplace so that individuals and small employers can have access to affordable insurance products.** Insurance market reform is necessary so that small- and medium-sized businesses and individuals can find affordable health insurance options. Many large employers fear that rising health care costs may encourage small- and medium-sized businesses to drop health

⁷ Milliman, *Hospital and Physician Cost Shift: Payment Level Comparison of Medicare, Medicaid & Commercial Payers* study, December 2008.

coverage to keep their business competitive, especially during this severe economic downturn. Such a trend will lead to large employers (who are doing the right thing in offering and heavily subsidizing coverage) having to assume an even larger economic burden because of a variety of factors, including increased costs they pick up indirectly through cost shifting.

This is a major reason why we need to find ways to improve the insurance marketplace to provide affordable, quality health plans for small employers and individuals. For all employers, having access to broad coverage opportunities for all employees is a critical element of health care reform. The current insurance marketplace is afflicted with dueling mandates, rules and regulations. Many in the Coalition support national rules governing the private insurance marketplace so that there is a better marketplace for Americans who work for small and medium-sized business and for individuals to get affordable health insurance coverage.

4. **Invest in Health Information Technology, including the adoption of uniform federal standards, to improve efficiency and patient safety.** Consistent and efficient health information technology will help reduce overall health care costs and improve the quality of care. An integrated health system would provide quality reporting, improve health care outcomes, and reduce duplication and medical errors. The health care system would benefit enormously from the kinds of dramatic productivity gains achievable through appropriate health IT and related business process re-engineering that has transformed business and industry throughout the world. Employers have led the way in driving for a higher quality, evidence-based health care system and have an urgent interest in finding solutions that foster continuous quality improvement.

VI. Conclusion

In closing, Mr. Chairman and Members of the Committee, on behalf of the National Coalition of Benefits, we support the employment-based system and the preservation of ERISA so that employers have the ability to offer and maintain uniform benefit plans. We believe that employers should remain in the health care system and that reforms that lead to lower health care costs will go a long way toward enhancing the employer-based health care system. Congress has the challenge of sorting through the details of how that would be accomplished, with many competing views. As a member of the National Coalition on Benefits, and independently, Hewitt would be pleased to offer its data analysis, experience, and consulting and administrative expertise in helping the Committee evaluate the impact of detailed reform plans on coverage provided by large employers today.